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ATTORNEYS AT LAW

January 27, 2005

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Federal Communications Commission
Office of Secretary

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

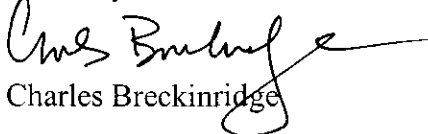
Re: *Level 3 Petition for Forbearance*, WC Docket No. 03-266
IP-Enabled Services, WC Docket No. 04-36

Dear Ms. Dortch:

On January 26, 2005, Cindy Schonhaut, Director of Federal Regulatory Affairs for Level 3 Communications LLC ("Level 3"), met with Tamara Preiss, Steven Morris, Jennifer McKee, and Alvaro Gonzalez of the Pricing Policy Division. Ms. Schonhaut was accompanied by Michael Starkey, Olesya Denney, and Patrick Phipps, all of QSI Consulting, Inc. ("QSI"), and by Level 3's counsel, John Nakahata and Charles Breckinridge (the undersigned), both of Harris, Wiltshire & Grannis LLP, and Andrew Lipman, of Swidler Berlin LLP.

The meeting focused on QSI's recent study into the impact of applying switched access charges to voice services between IP end-users and PSTN end-users. In the course of the meeting, Ms. Schonhaut and Mr. Starkey gave a PowerPoint presentation, a copy of which is attached to this letter. Ms. Schonhaut and Mr. Starkey also distributed QSI's study and a summary of the study's results, copies of which are attached to this letter. Finally, Ms. Schonhaut and Mr. Starkey distributed CD-ROMs containing an analytical model that QSI developed as part of its study; a copy of the CD-ROM is also attached to this letter.

Sincerely,



Charles Breckinridge

cc: Tamara Preiss (via email without attachments: Tamara.Preiss@fcc.gov)
Jennifer McKee (via email without attachments: Jennifer.McKee@fcc.gov)
Steven Morris (via email without attachments: Steve.Morris@fcc.gov)
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QSI TECHNICAL DOCUMENTATION

Document Number: 012605A

RESULTS SUMMARY

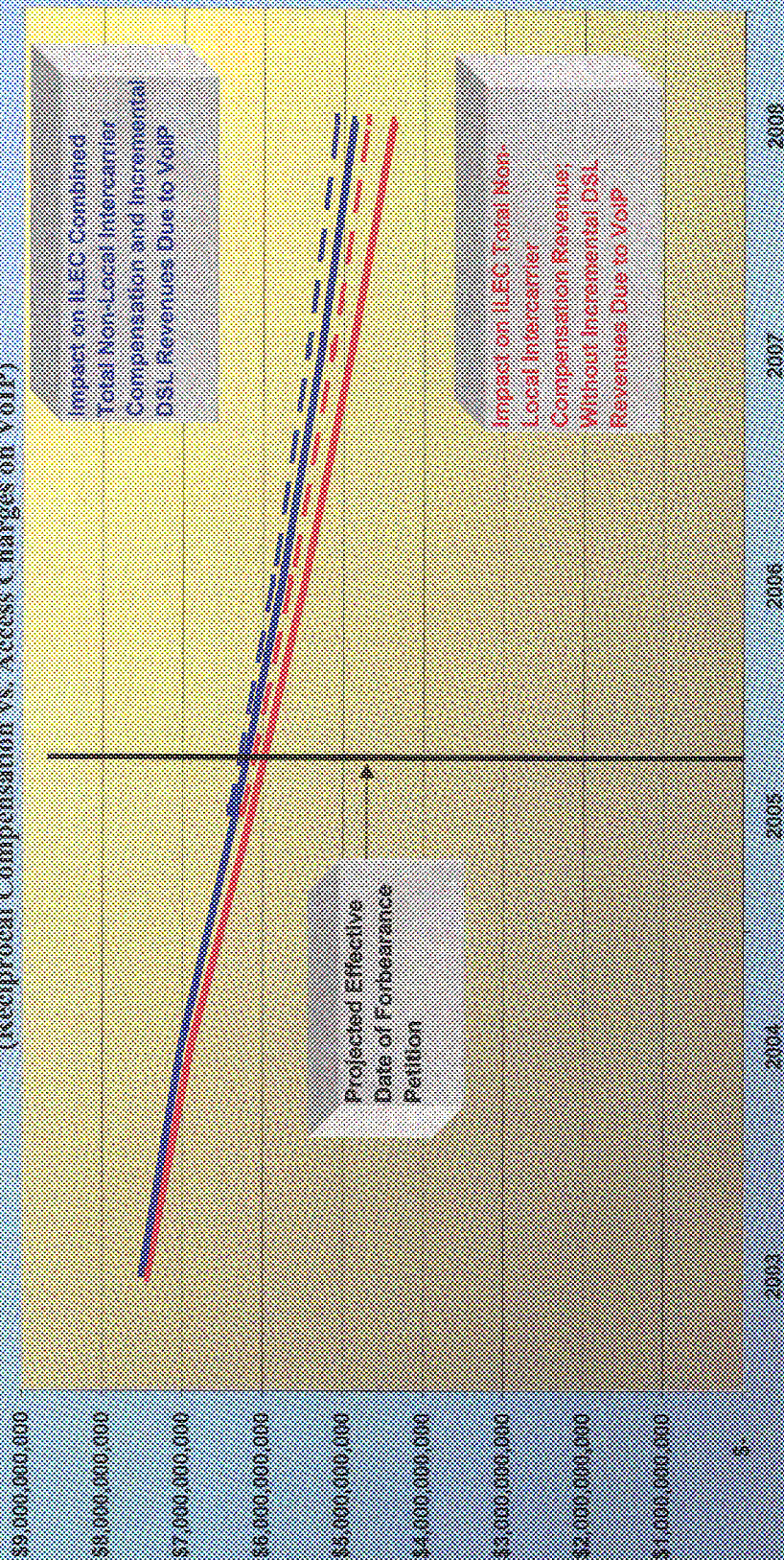
VoIP Impact Model



Contact
Information

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**CHART 1: Impact of Change in Compensation Regime on ILECs' Total Non-Local Inter-carrier Compensation, With and Without Incremental DSL Revenue
(Reciprocal Compensation vs. Access Charges on VoIP)**



- Total ILEC Non-Local Inter-carrier Compensation Revenue: VoIP under Reciprocal Compensation Regime
- Total Non-Local Inter-carrier Comp. + Incremental DSL Revenues: VoIP under Recip. Comp. Regime
- - - Total ILEC Non-Local Inter-carrier Compensation Revenue: VoIP under Interstate Access Charge Regime
- - - Total Non-Local Inter-carrier Comp. + Incremental DSL Revenues: VoIP under Interstate Access Charge Regime

CHART 2: ILECs Benefit From Applying Access to VoIP is Offset by Reduced VoIP-Related Stimulation of DSL Subscribership

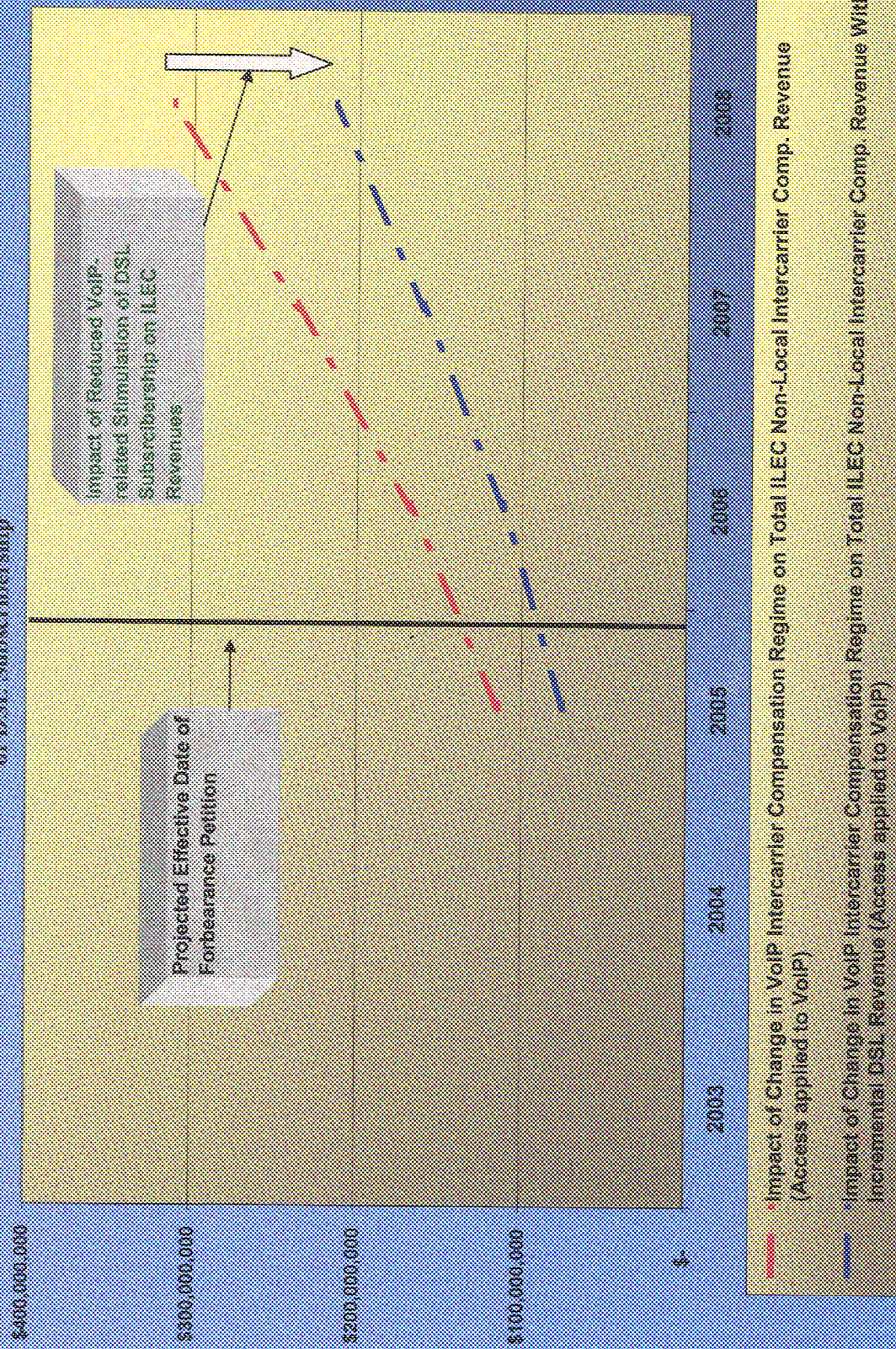


CHART 3: Historical Trend of Total ILEC Non-Local Inter-carrier Compensation Revenue -- Impact of Changing Compensation Regime for VoIP

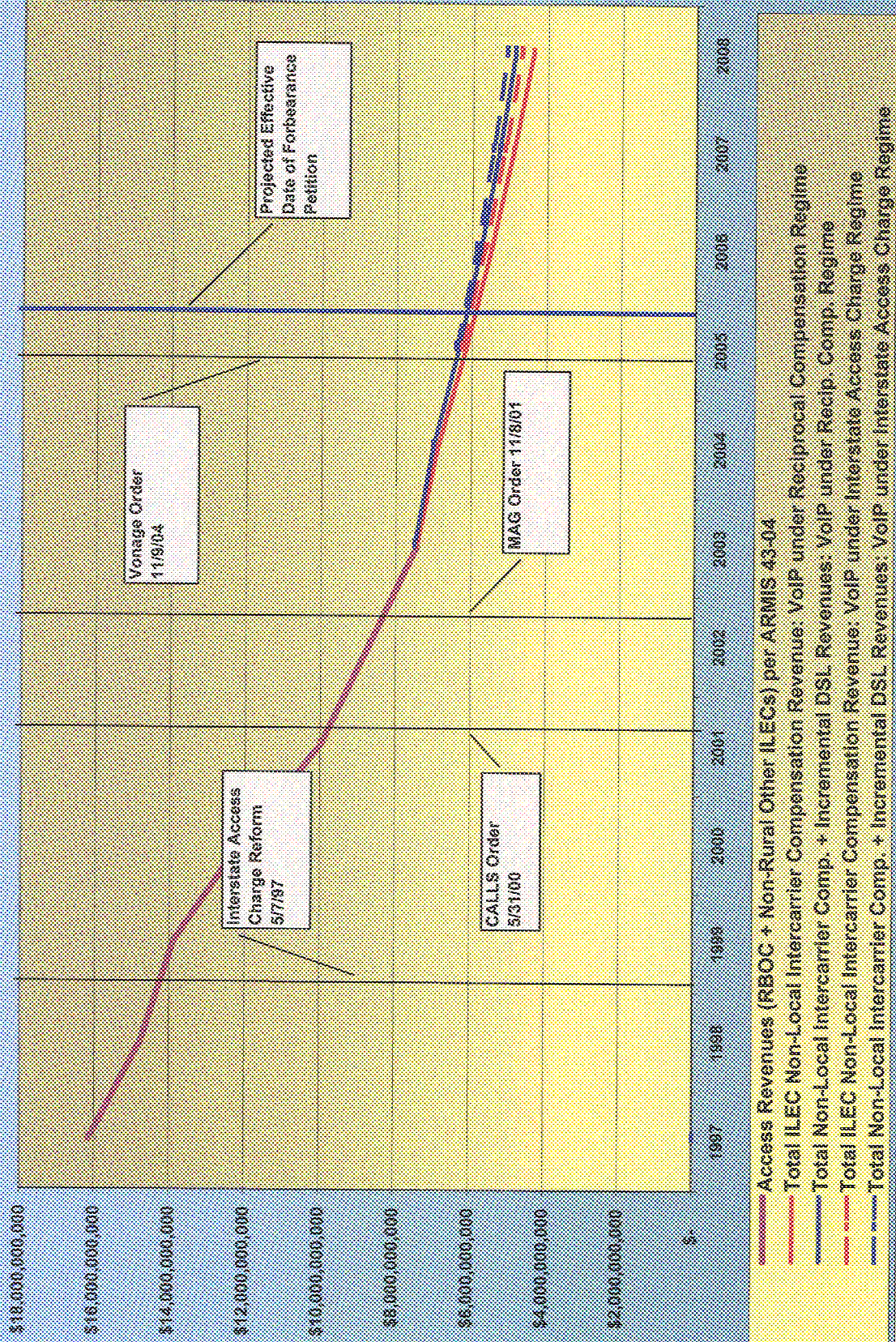
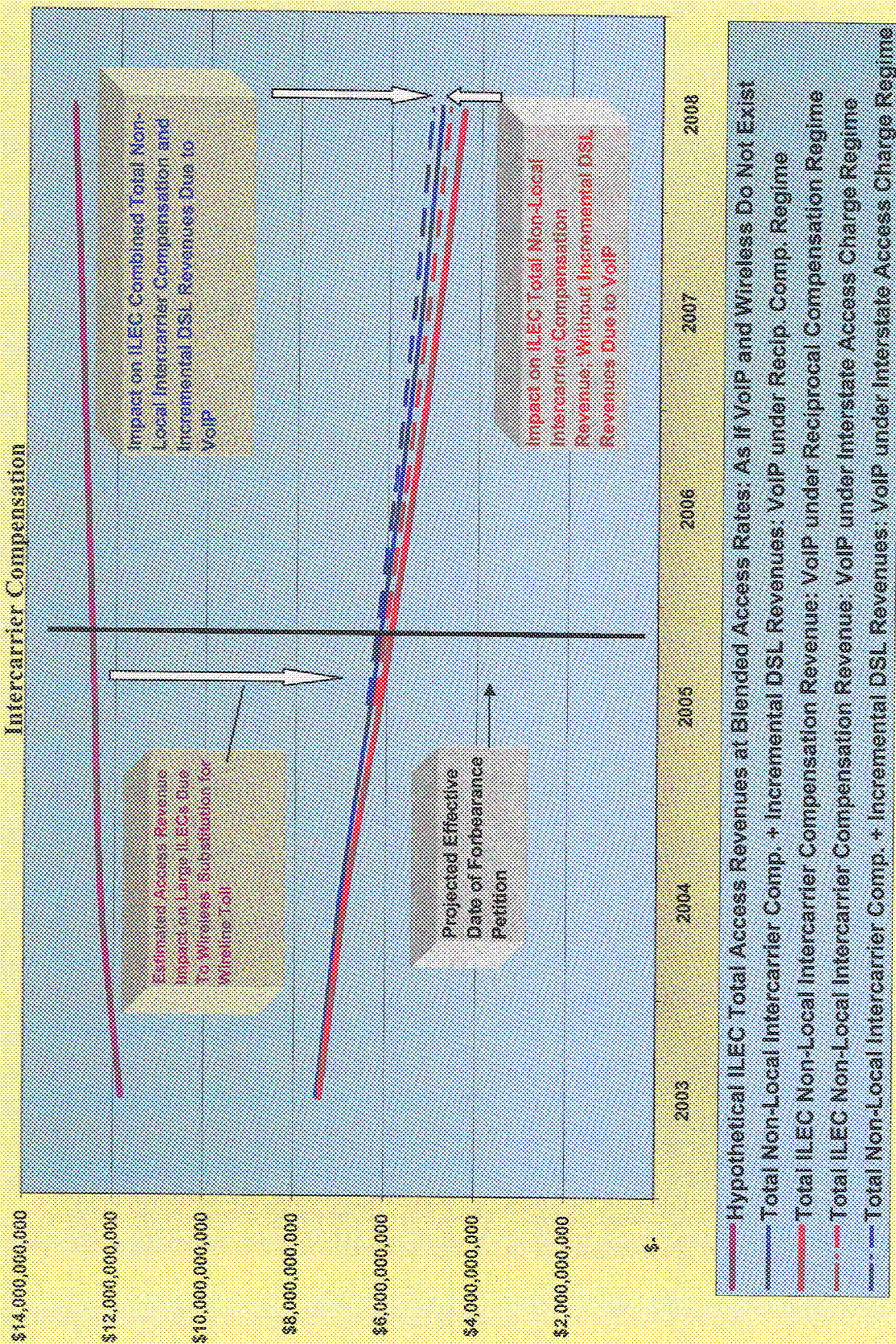


CHART 4: Comparison of the Impact of Wireless vs. VoIP Substitution on Total ILECs' Non-Local Inter-carrier Compensation



Impact of Level 3 Forbearance Petition

Cindy Z. Schonhaut
Director, Federal Regulatory Affairs
Level 3 Communications, LLC

January 26, 2005

Wanted: Regulatory Certainty

- Everyone agrees intercarrier compensation reform is long overdue. However, in the interim before comprehensive reform, new technologies (e.g., IP enabled services like VoIP) in particular, face substantial uncertainty related to network rights and obligations
- Level 3 Petition transitionally resolves that uncertainty during the interim period pending comprehensive reform
- Even in light of the *Vonage Preemption Order*, states still face the need to adjudicate interconnection disputes related to VoIP:
 - FCC's ESP exemption: allows ESPs to use local business lines to send and receive calls
 - States still have jurisdiction over the underlying networks which will support IP-Enabled services
- Recognizing federal jurisdiction, but uncertain about its application, states are likely to continue rendering disparate decisions

Policy Choices Until Comprehensive Reform

- If Commission keeps status quo and reciprocal compensation applies:
 - IP-based innovation continues to deliver new services to consumers
 - VoIP drives broadband subscription and growth
 - QSI Report estimates that ILECs will see DSL revenue stimulated by \$269M through 2008
- If the Commission changes course and applies access to VoIP:
 - ILEC switched access revenues will increase by \$114M (1.9% of total) in 2005 and \$167M (3.0% of total) in 2006
 - ILEC revenue from DSL falls by \$39M in 2005 and \$56M in 2006
 - VoIP deployment will slow significantly and federal policy will thwart increased deployment of broadband
- No impact on exempted rural carriers as a result of the Petition

Level 3 Petition Benefits Public Interest

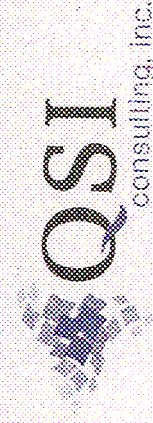
- Forbearance will spur deployment of IP-enabled services, open capital markets, and contribute to economic development and job growth
- VoIP is by far the strongest contender for residential voice competition.
 - Cable systems are deploying VoIP
 - Others can provide voice over broadband
 - Pricing pressure is fierce for VoIP and is driving down retail prices for traditional PSTN services
 - AT&T, Verizon and Vonage have all reduced prices
- Broader intercarrier compensation reform will eventually replace outcome of Level 3 Petition, likely in the next few years. The sooner comprehensive reform begins, the lower the level of concern about the impact on switched access revenues.

IP-Enabled Voice Services

*Impact of Applying Switched Access Charges to IP-PSTN
Voice Services*

Model Presentation

Olesya Denney, Ph.D. • Patrick Phipps • Michael Starkey



Introduction

Slide 1



QSI Model Development Team:

Olesya Denney, Ph.D.

Warren Fischer, CPA

Tim Gates

Patrick Phipps

Mark Stacy

Michael Starkey